Campground Valuations

What's it worth?

How to get more money from the bank?

Margins, P&L, Money – Exit Strategy!

What's It Worth?:

There are many acceptable methods of valuing a business. One method may be more suitable than another, depending on the type of business being valued, including its industry, size, and circumstances of the sale.

Valuation Options:

- Multiplier Option: If you talk to some campground experts they will give you numbers like 2.8 to 3.8 times GROSS SALES.

- Net Operating Income: If you talk to me, I only tell you to use NOI to establish a value. Even if that means we have to get more of your income “ON THE BOOKS”.

Multiplier Option:

- In this example we will use 3.5 Times sales as our accepted “Multiplier”.

SO:

- $100,000 in Gross Sales and
  $ 20,000 in expenses
  Your Target Market Price based on our MULTIPLIER is?

$350,000

NOI Option:

DEFINITION:

Gross income – Expenses = NET OPERATING INCOME

NOI Option:

- Using the same example of $100,000 in sales and $20,000 in expenses using NOI:
- $100,000 –
  $ 20,000 =
  $ 80,000 Net Operating Income Times a 10% Capitalization Rate =
- $800,000 Valuation

What’s my Park worth?

- While I strongly suggest using NOI to determine value, which ever method you choose, you must:
- Set aside personal feelings about the Parks worth & establish a realistic and competitive price.
  - Need to objectively analyze business records and assets
  - Study the current Marketplace
  - Consider employing the expertise of a professional business consultant.

Valuation Step 1:

Prepare your financial statements:

Gather financial records for the past 3 years including:

- Tax Return
- P&L
- Personal Items Run Thru Business
- Non-recurring Expenses

Tax Return

- Using the latest return you have, we start with exactly what you report to the IRS.
- There are things on the tax return that we back out:
  - Depreciation (non-cash item)
  - Interest (this will be included in the pro forma)
  - Personal expenses (run through the company)
  - Non-recurring expenses (like new roof)

Depreciation

- Depreciation simply stated says you can write off the cost of the purchase over 27.5 years for improvements and Buildings.   The other stuff like personal property can be fast tracked over 5 or less years.
- So Depreciation is really:
- 100% divided by 27.5 years = 3.64% of purchase price depreciated each year.

Depreciation

- Be aware, when it’s time to sell the government will want to recapture that depreciation in the sale:
- So if you bought for $1,000,000 and depreciated $800,000 and then you sell for $1,200,000 you basically pay capital gains on:
- 1,200,000 sale price - $200,000 basis =
- $1,000,000 X capital gains % - so be sure to talk to your accountant on the tax implications.

Personal Items

- Most owners run many of their personal expenses through the campground:
  - Health insurance
  - Gas, groceries, cars, trips, etc
  - Utilities
- When analyzing the value of the park, we want to make sure we pull these out so they land on the bottom line where they belong.

Non-Recurring Expenses

- I want to touch briefly on these: I call them “SDE’s”.
- Seller’s Discretionary Earnings
- These are items that you purchased or improved from your companies earnings:
  - Bought a new lawnmower
  - Paved the park
  - Put new metal roof on pavilion
  - Added 10 more sites
- These are all examples of one-time expenses that should not be in expenses, since they will not occur again the following year.   These are improvements.

SDE Example

- Let's say you decided to take $70,000 of earnings and invest in upgrading all of your sites to 50 amp service, or add 10 more sites.

- The hit to the bottom line is severe! But only for that calendar year. So if you note it and take it out as non-recurring expenses, it will accurately show future income going forward. Plus you can assume new income benefit by having more 50 Amp sites or just sites available to rent.

What a Difference an SDE Makes!

Once you see the impact on your Pro Forma by pulling out the Seller's Discretionary Earnings and Non-Recurring expenses, we should also account for any future impact to your gross sales the SDE's will provide.

Worksheet Examples

At the end of this presentation we will switch to a spreadsheet to show you what it can mean to you!

EBITDA

Anyone know what this stands for?

E = Earnings (Before):

I = Interest

T = Taxes

D = Depreciation

A = Amortization/Appreciation

EBITDA Explained:

This is just one measure of a company's operating efficiency. It measures the profits without having to consider other factors such as:

- Financing Costs (Interest)
- Accounting Practices (Depreciation, Amortization, Appreciation)
- Tax Tables

EBITDA Explained:

EBITDA Gets the FAT out!

Get More Money from Bank

- Remember how important you are to the bank. They are just like any other business, beholding to their shareholders. If you have a park valued at $1M dollars and you owe $400K on the property, this is a great Debt to Equity ratio for the bank. They need you, in fact, they even loan other people money based on your equity! So remember you are in the drivers seat.

Debt to Equity

- $1,000,000 value - $400,000 owed = $600,000
- $600,000 at 75% loan to value is:

  $450,000 borrowing power to the bank.

If you go away – so does that borrowing power!

Houston we have a problem!

What if my Gross Sales don’t equal what we want as a sales price???

GS X 2.8 to 3.8 = Target Price

Houston we have a problem w NOI:

- You have already heard me say that I prefer NOI valuations over a traditional Gross Sales multiplier, because it is a truer representation of worth. Gross multipliers look back at historical sales and say this is what they sold for – NOI looks at YOUR books and values YOUR Park based on what you're doing NOW.
- WHAT IF IT'S STILL NOT WHAT YOU WANT?

Increase Gross Sales

Using SDE we can target items that will increase our sales!

Hottest revenue producers lately?????

Cabins/Park Models/Rentals

Revenue Producers:

What else can we use Discretionary Earnings on that will be non-recurring Expense with ULTRA Recurring Income???

- Golf Carts
- Attractions (slides, Mini Golf, kid land items, etc)
- Larger PULL THRU sites with full hookup

  50 Amp with Water/SEWER/INTERNET/CABLE

Borrowing Money

- Say you want to add cabins? A fully loaded cabin is around $30,000 (used park models maybe less) – so if you can rent for $150 per nite and you have only 60 nites of occupancy per season:
  - $150 X 60 = $9,000 revenue
  - 15% maintenance/cleaning = $1,350
  - $7,650 gross revenue

Borrowing Money

- $9,000 income
  - $1,350 expense
  - $3,740 Mortgage (10 year AM pay off Zero down)
- $3,910 NOI x 10 Cap adds $39,100 of value to your park in the first year!!!

Conclusion:

- When you want to sell – plan on a 3 year exit strategy that includes:
  - Establishing a realistic and competitive selling price by developing a credible VALUATION.   I can help!
  - Gather all financial tools for that journey:
    - True Income and Expenses
    - Net Operating Income
    - Personal Expenses accounted and explained
  - Transform your income statement into an SDE Statement so you can effectively prove the parks worth!
  - If you don’t like the number – use SDE to improve it!

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